



Mexico Economic Profile

Fourth Bimester of 2023

Timely Macroeconomic Report
for Decision Making

August 2023

Economic Profile of Mexico

Fourth Bimonthly Report of 2023

During the first eight months of the year, the performance of the Mexican economy has been encouraging. To the surprise of most, the economy did not slow down but maintained robust growth and sustained job creation. In addition to this, inflation fell steadily and is now very close to the Central Bank's institutional objective. For the rest, the two fundamental balances (fiscal and external) remain under control, although there is concern about an overflow of the fiscal deficit in the 2023-2024 biennium. In the external sphere, the great concern is that Mexico have not created the optimal conditions to take advantage soon of nearshoring. If the current economic policy is maintained and healthy financing of social programs is neglected, the structural deficiency of low economic growth will worsen soon and the resources that are currently scarce for health, education, infrastructure and energy will become even more scarce.

Vigorous Economic Recovery.- In the second quarter of 2023, economic growth was 3.6% (similar to 3.7% in the previous quarter). It must be emphasized that the forecasts of gradual deceleration have not been fulfilled. As a consequence, the growth forecast for Mexico has improved and is now around 3% for 2023 (very similar to the government's forecast). The drive comes from the domestic market and, to a lesser extent, the external market.

Inflation is receding.- After two long years of anti-inflationary struggle, inflation is declining and in August it fell to 4.6%. As recalled, inflation derived from an explosion in global demand, imbalances in production chains due to Covid-19 and the spike in energy and food prices, which was aggravated by the Russia-Ukraine war and now with the Middle East war. In Mexico, two anti-inflation programs and a generous gasoline subsidy helped contain inflation. It is expected that this will gradually return to its historical levels (2-4%) . This is expected at the end of of 2023 or the beginning of 2024.

Job creation remains healthy.- After the enormous loss of formal jobs in 2020 (-648 thousand), a rapid recovery in jobs was observed in 2021 (+846 thousand) and 2022 (+753 thousand). In August 2023, annual job creation totaled 760 thousand, showing that it remains vigorous. As a result, this year the unemployment rate has remained close to 3%. Meanwhile, minimum wages gained purchasing power, despite growing inflation; although this only contributes to partially and temporarily improving the wage bill and reinforcing consumption.

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Pressure on public finances.- For January-August 2023, revenues sum 14.6% of GDP, expenses 16.2% of GDP, and that results in a negative balance of -1.6% of GDP. The expectation is to increase tax revenues to compensate for lesser oil revenues and adjust programmable spending downward to accommodate increasing non-programmable spending. As a result, a larger deficit is foreseeable in 2023, and a public debt of less than 50% of GDP. Debt went from 47.6% in 2022 to 44.7% of GDP in August 2023.

Financing to the Private Sector continues to be slowed.- Despite efforts to boost it, financing to the private sector suffered a severe decline in 2021 and a more moderate one in 2022 and 2023. In the second quarter of 2023, the annual decline (-2.9%) is explained by a fall in financing to companies (-7.8%) and by a recovery in financing for housing (1.1%) and consumption (11.5%). All in the context of high interest rates (above 11% in August 2023), which will continue to slow down financing.

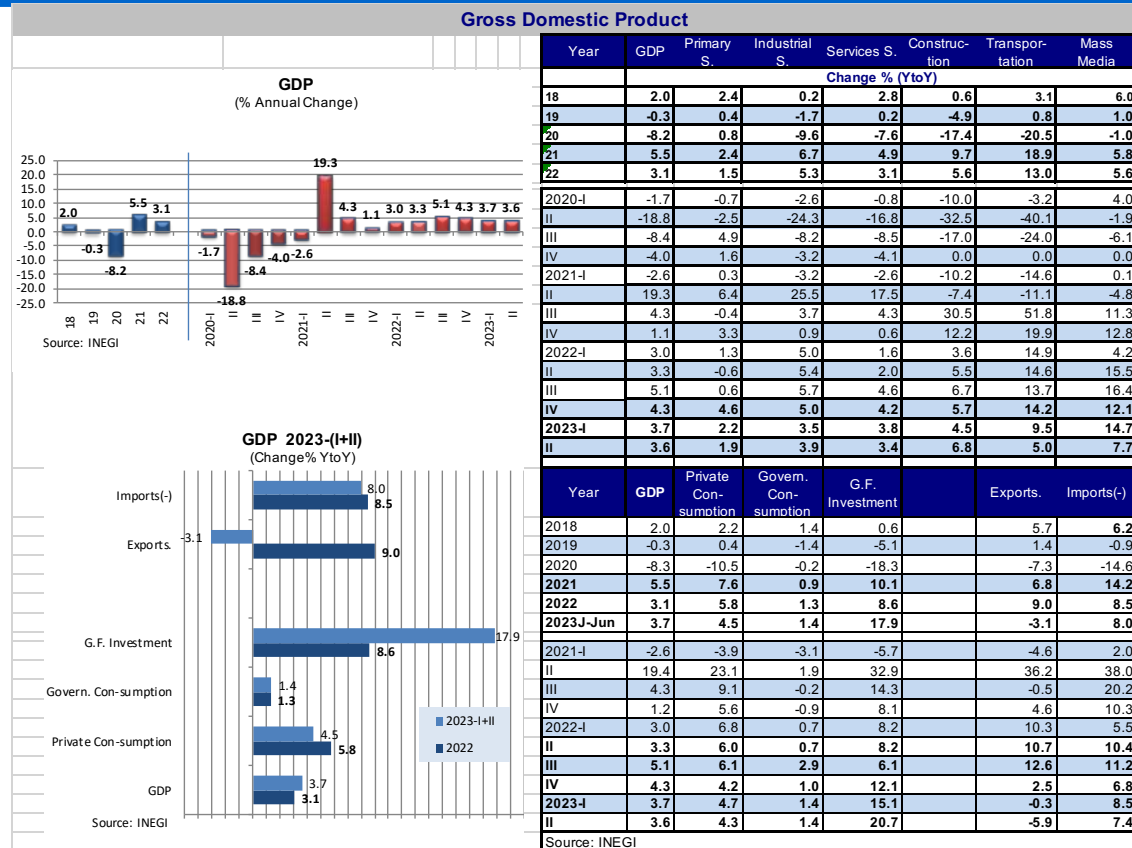
International trade is beginning to slow down.- There is a clear slowdown in Mexico's international trade: growth of 6.6% in the first quarter and a decrease in the following quarters. However, export income along with remittances (which grew 7.6% in July-August) have strengthened foreign exchange earnings and contributed to maintaining international reserves at a good level (they close 2022 at 199 USD Bn and increase to 204 USD Bn in August. 2023). Fortunately, the evolution of foreign investment – especially direct investment – has been favorable and shows good performance throughout this year.

Moderate Slowdown in the US with declining inflation.- In the second quarter of 2023, economic growth was 2.1% in the US (vs. 2.2% previously). For its part, the industry observes little dynamism (0.7%), which is not favorable for the Mexican economy. Meanwhile, unemployment has stagnated at low levels (3.8% in August). As throughout the world, the main concern lies in high inflation (especially core inflation), which began to decline in the second part of 2022: from 9.1 to 6.5% in December 2022 and from there to 3.7% in August 2023. In short, in the US the economy slows down, although not excessively, and inflation declines.

Economic Outlook on the Rise.- In 2023, although they improve every day, the forecasts are for moderate economic growth for Mexico and the USA: around 2.9% for Mexico and 1.9% for the USA, because of a restrictive monetary policy in both countries. For 2024, growth forecasts would be slightly lower than those for 2023 for both countries.

Economic activity

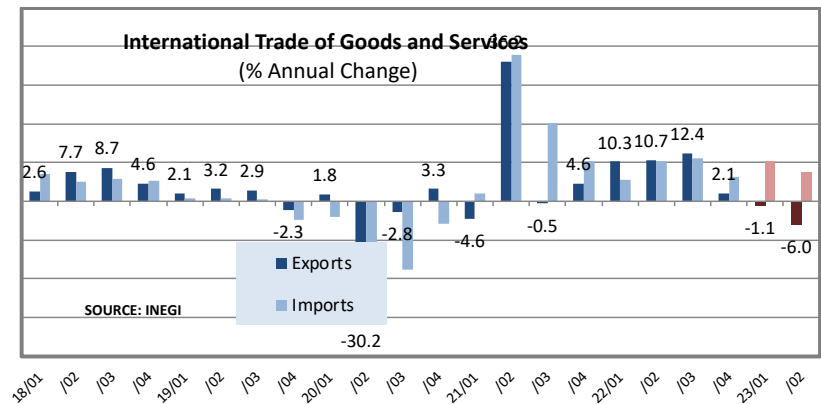
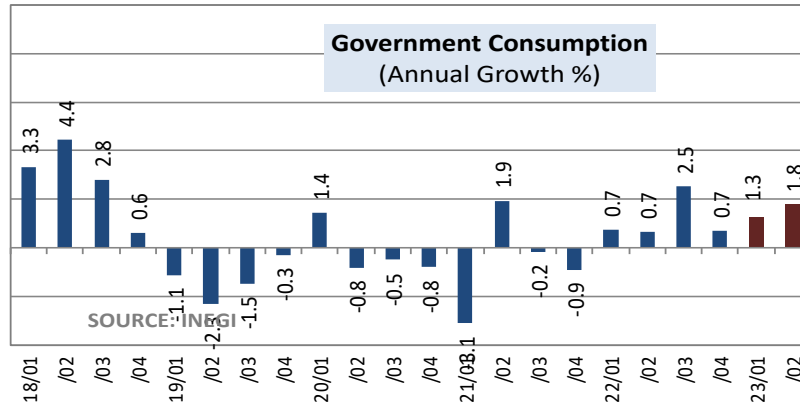
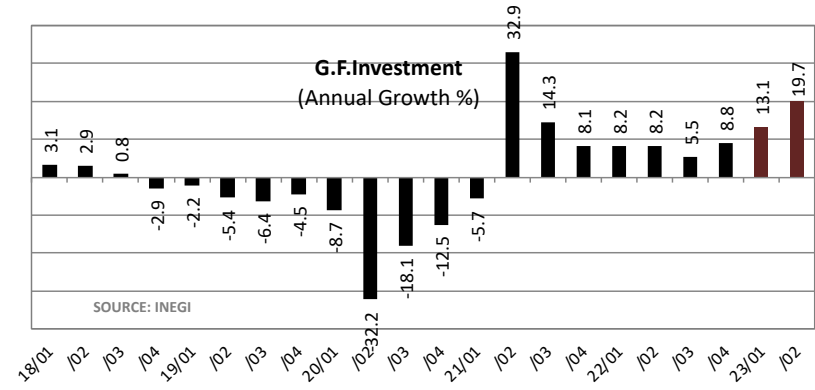
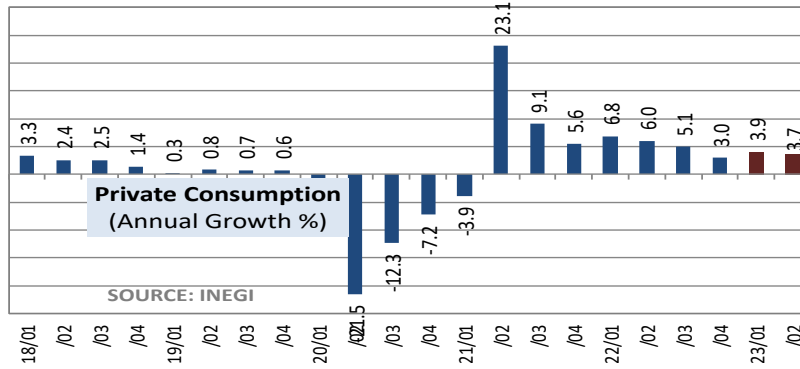
In the second quarter of 2023, GDP grew 3.6% (vs. 3.7% in the previous quarter), which means that economic growth will most likely exceed 3% on average for the year.



- Solid economic growth is reported in the first half of 2023 (3.6%), which outlines growth greater than 3% for 2023, instead of the expected slowdown.
- At the sector level, in the second quarter of 2023, the most accelerated recovery occurred in the industrial sector (3.9%), then in services(3.4%), and finally in the agricultural sector (1.9%).
- On the demand side, all the drivers of the domestic market remain dynamic; not so exports, which show a moderate decline.

Economic Activity

In 2023, the drivers of domestic demand remain vigorous, highlighting investment with double-digit growth.



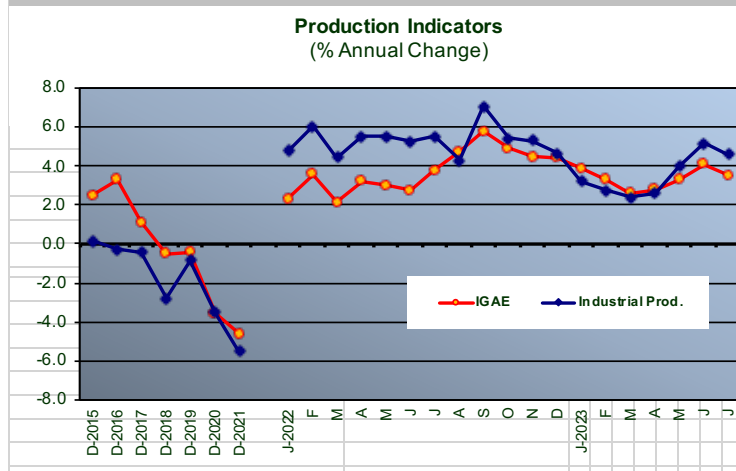
- Private consumption, with the greatest weight in demand (2/3 of GDP), after the pandemic, maintains the inertia of the recovery in 2022-2023 (4.3% in the second quarter), but it is slowing down.
- Investment is growing at a very rapid pace in 2023; for the first time in this six-year term, investments grow at a double-digit rate (20.7% in the second quarter).
- For their part, exports of goods and services are slowing in response to the slowdown in the US economy.

Economic Activity

At the beginning of the second half of 2023, very robust economic activity is reported.



Production Indicators



Source: Information from INEGI

Period	IGAE (proxy of GDP)				Cons-truc-tión	Commer-ce				Gross Fixed Invest-ment	Private Consump-tion
	TOTAL	Primary S.	Indus-trial S.	Servi-ces S.		Net Sales		Trans- portation	Mass media		
						Wholesal-e	Retail				
D-2015	2.5	2.0	0.2	3.8	-1.8	2.2	3.4	7.6	18.8	-0.3	2.9
D-2016	3.3	3.9	-0.3	5.1	-1.0	14.2	9.0	14.0	8.7	0.4	5.0
D-2017	1.1	1.4	-0.4	1.8	3.8	-6.4	-2.0	1.3	3.9	-0.9	0.9
D-2018	-0.5	3.5	-2.8	0.5	-9.0	-2.0	0.0	2.1	1.2	-7.8	0.6
D-2019	-0.4	-2.5	-0.8	0.1	-4.6	-4.2	1.3	-0.9	-2.6	-2.9	-0.2
D-2020	-3.6	-2.5	-3.5	-3.6	-12.9	3.9	-1.9	-21.3	5.1	-12.7	-6.7
D-2021	-4.6	1.3	-5.5	-4.3	-10.5	1.9	-2.5	-19.3	-13.4	5.7	7.4
J-2022	2.3	0.2	4.8	1.0	5.9	0.6	6.3	13.0	20.8	9.8	5.9
F	3.6	-0.8	6.0	2.4	3.1	8.6	6.7	18.3	6.1	6.1	7.6
M	2.2	5.5	4.4	0.7	6.8	5.2	4.0	13.2	7.7	7.7	6.4
A	3.2	2.3	5.5	2.1	6.6	7.2	7.8	15.5	8.1	8.1	6.2
M	3.0	2.6	5.5	1.6	1.7	6.7	5.8	13.2	7.7	7.7	6.3
J	2.7	-6.5	5.3	1.7	4.6	8.6	6.4	12.5	10.2	10.2	5.5
J	3.8	-5.2	5.5	3.2	3.3	7.3	5.7	11.9	5.5	5.5	4.6
A	4.7	1.6	4.3	5.0	-3.7	11.3	3.7	15.3	5.8	5.8	5.5
S	5.7	6.9	7.1	5.1	-1.2	8.7	7.0	14.7	7.3	7.3	5.1
O	4.9	3.4	5.4	4.7	-0.7	6.0	6.6	10.9	7.9	7.9	4.1
N	4.5	5.2	5.3	4.0	3.1	2.5	4.4	9.1	7.7	7.7	3.2
D	4.4	4.9	4.6	4.4	4.7	5.4	4.5	8.1	11.9	11.9	2.7
J-2023	3.8	-1.5	3.2	4.7	4.1	7.0	4.9	9.7	10.8	10.8	5.2
F	3.3	6.5	2.7	3.4	2.4	-0.9	6.7	7.1	14.6	14.6	3.2
M	2.6	-1.7	2.4	2.9	4.6	0.1	7.9	4.8	12.5	12.5	2.7
A	2.8	2.5	2.6	2.8	3.8	3.6	4.5	4.3	13.9	13.9	3.9
M	3.3	-0.6	4.0	3.1	16.0	2.6	3.1	3.3	20.9	20.9	3.1
J	4.1	5.9	5.2	3.3	21.1	-0.9	7.7	3.9	26.0	26.0	3.8
J	3.5	8.8	4.6	2.5	23.0	2.3	4.8	3.0	26.6	26.6	4.4
A	3.5	7.1	4.4	2.8	29.3	5.8	3.2	1.0	28.3	28.3	4.4

Source: INEGI

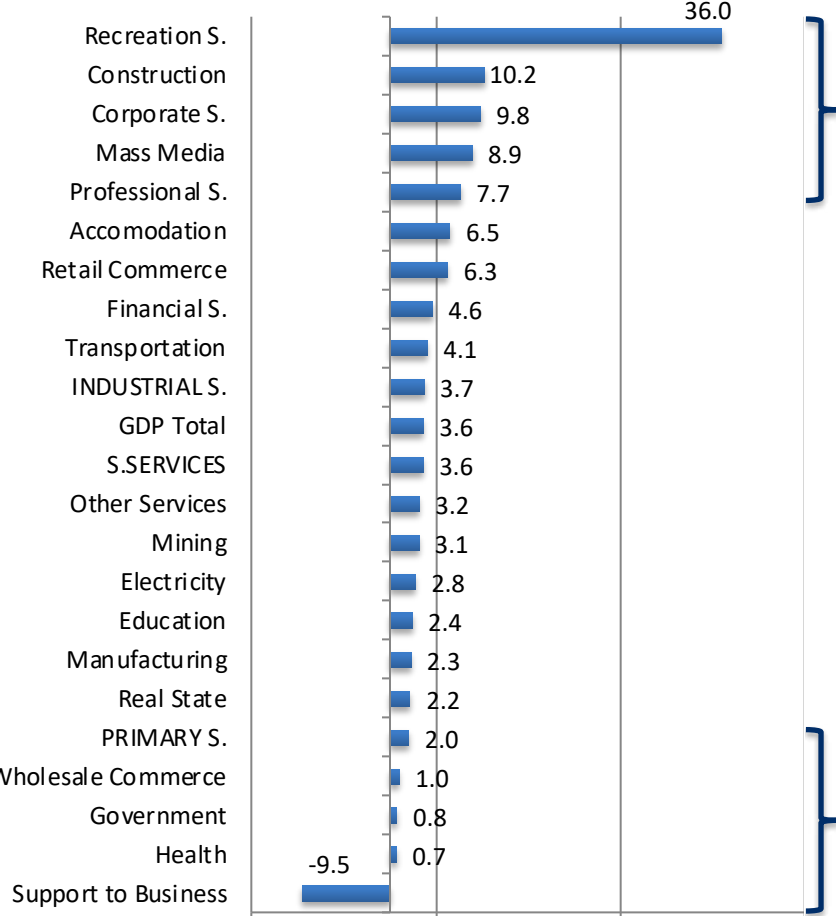
- The IGAE (Global Indicator of Economic Activity), after the rebound in 2021, has since observed a moderation in its annual growth; However, as the second half of 2023 begins, growth looks vigorous: 3.5% in July.
- At the sectoral level, if the agricultural sector (4.4%) is ignored (because it is usually very volatile), growth rests fundamentally on the industrial sector (4.9%) and the services sector (2.4%).
- Regarding demand, the very robust reactivation of investments has been a pleasant surprise for everybody.

Economic Activity

In 2023, the return to normality and positive and moderate growth rates is confirmed in most economic branches.



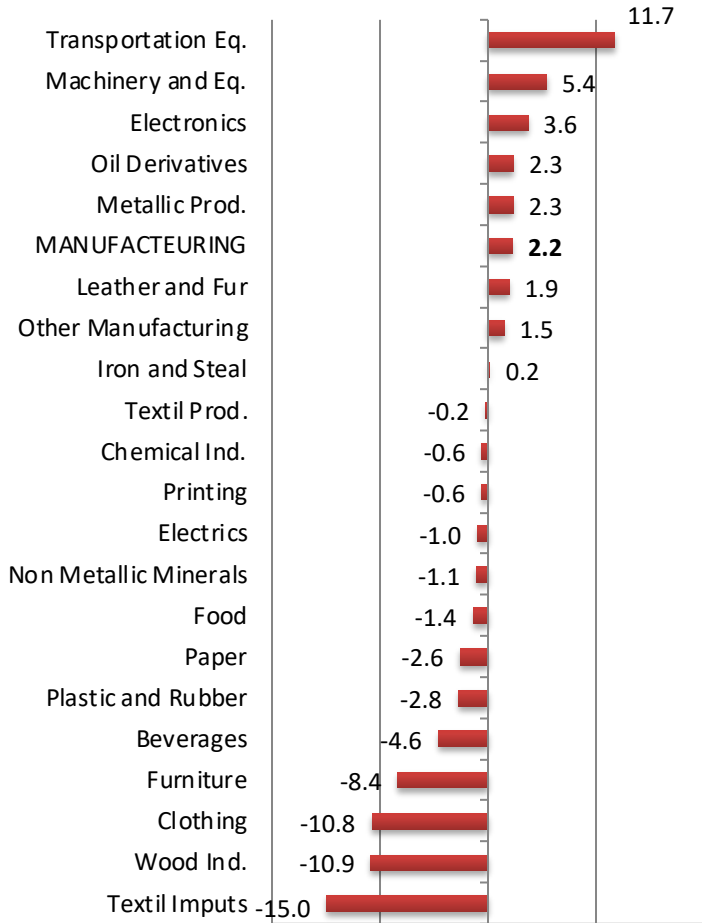
GDP 2023-II
(% Annual Growth)



The most dynamic

The least dynamic

MANUFACTURING 2023-II
(% Annual Growth)

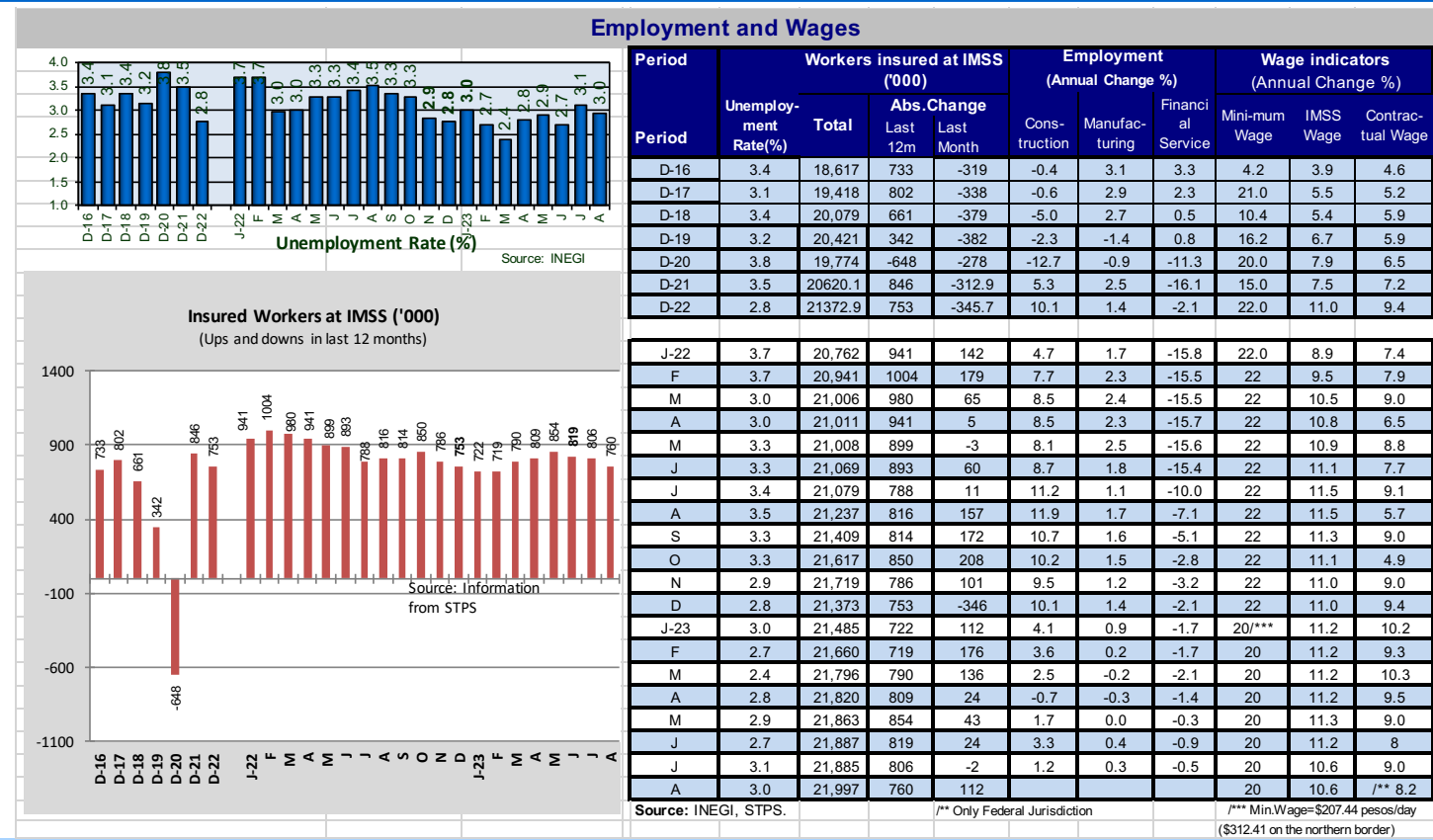


Source: INEGI (Seasonally Adjusted Series)

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Employment and Wages

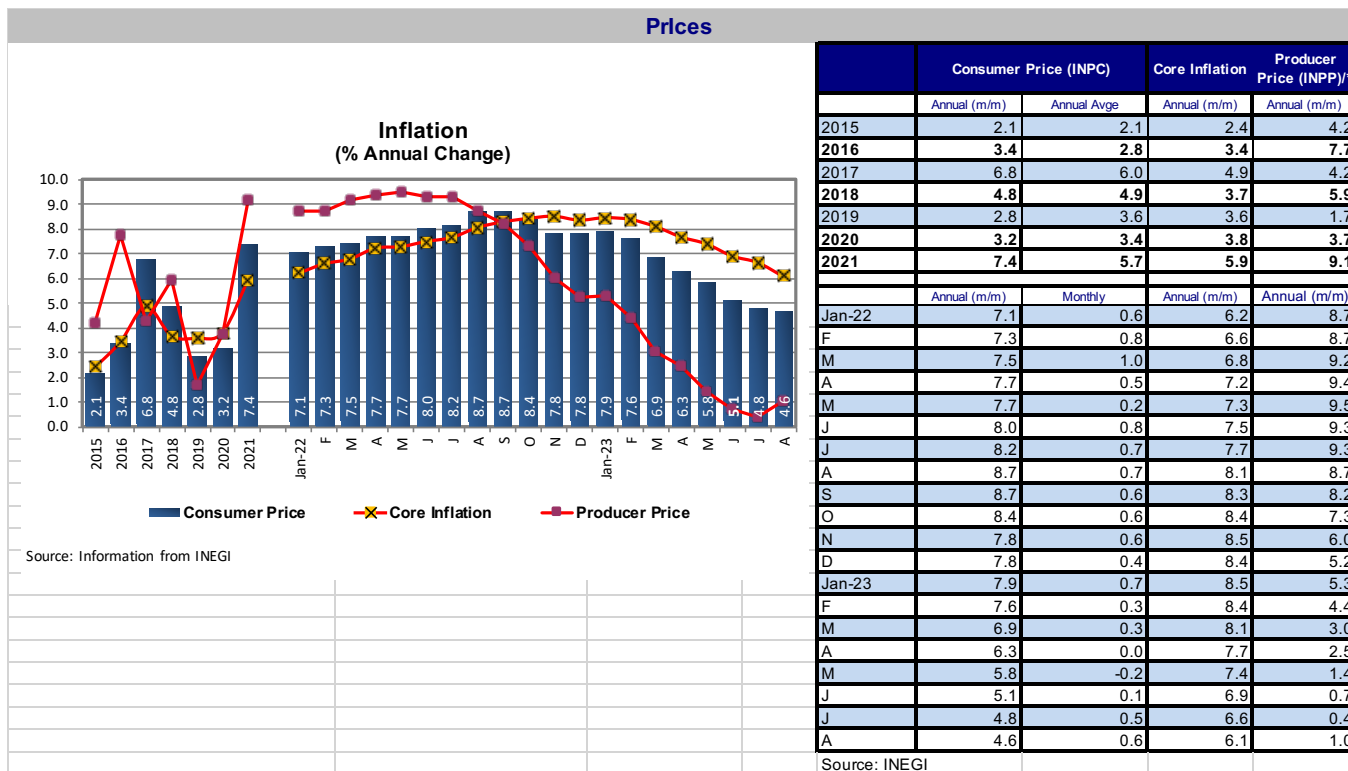
In the post-pandemic phase, a solid generation of jobs (760 thousand in the last year) has been combined with a significant increase in salaries.



- The unemployment rate was 3% in August, within the low range of the last two years.
- In 2022, 753 thousand were created and in August 2023 an annual job creation of 760 thousand was reported, which reconfirms that the labor sector remains strong.
- The higher inflation has led to disparate gains in the three main salary indicators: +15.4% in the minimum, 6% in the IMSS salary, and 3.6% in the contractual salary. The salary improvement is largely attributed to the annual adjustment in the minimum wage (20% in 2023) promoted by the current administration.

Prices

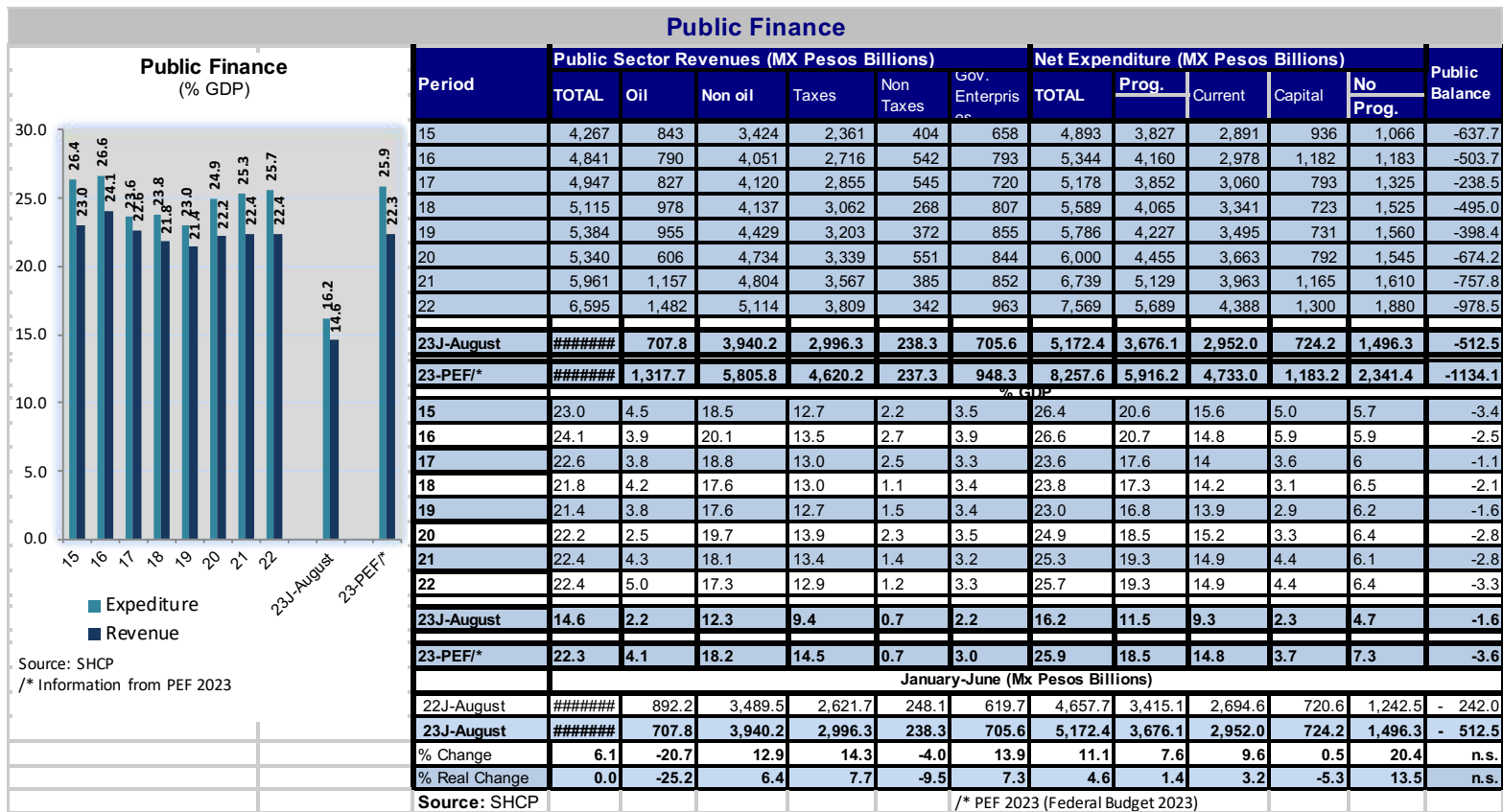
In August 2023, inflation fell again to 4.6%. Core inflation also fell, but remains high (6.1%).



- Inflation is receding rapidly. It seems to have reached a maximum in August 2022 (8.7%) and in December it fell to 7.8% to stand at 4.6% in August 2023. The inflationary episode is attributed to the explosion of global demand and the imbalance in production chains derived from the pandemic, and the Russia-Ukraine war and now the Middle East war.
- The expectation is the recovery in a few months of the institutional goal of the Bank of Mexico (3% +/- 1%). Producer price inflation is minuscule (1%), not so the core inflation, which remains high (6.1%).
- If trends strengthen, the return of historical inflation rates will soon be seen.

Public Finances

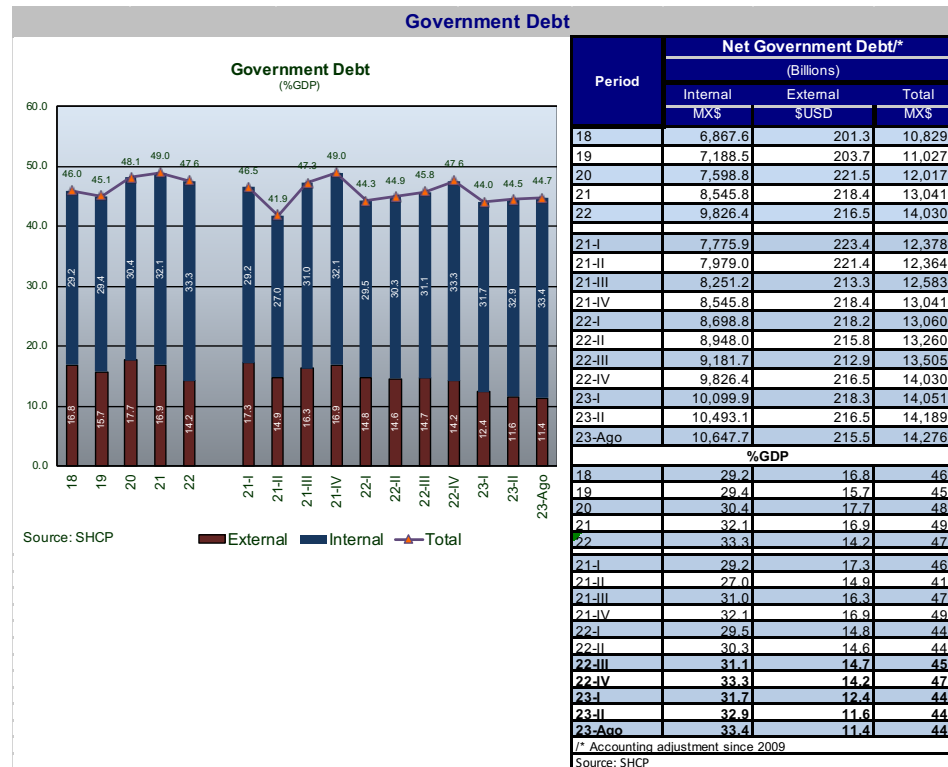
In January-August 2023, government revenues sum 14.6% of GDP, expenses 16.2% of GDP, and that results in a deficit of 1.6% of GDP.



- In January-August 2023, zero growth in revenues (0.0%) and a significant increase in expenses (4.6%) is reported.
- On the revenue side, the decrease in oil revenues stands out (-25.2%). On the spending side, only investment spending shows a decline (-5.3%).
- In 2023, strong spending pressures are emerging to conclude flagship projects and reinforce social programs, in parallel with a weakening of oil revenues.

Public Debt

Public debt, as a percentage of GDP, remains under control: despite greater budgetary pressures, debt continues to contract: it fell from 47.6% in 2022 to 44.7% of GDP in August 2023.

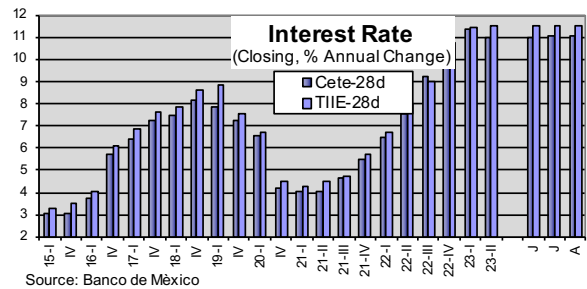
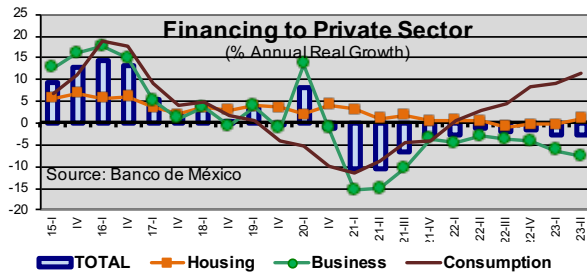


- In global comparison, Mexico's public debt is moderate: lesser than 50% of GDP. As a reference, in the USA it is around 130% of the GDP and in Japan it is 260% of the GDP.
- The current administration has kept its promise to keep the debt limited. Although this has experienced ups and downs, it has remained within manageable ranges. Without a doubt, higher inflation helped "liquefy the debt."
- To control it, it is essential to maintain a moderate fiscal deficit and a relatively stable exchange rate and this has been achieved. It has not been easy since the sources of government resources are very limited and the budgetary needs, along with social support, are enormous.

Financial sector

In the second quarter of 2023, financing to the private sector continues to decline (-2.9%); The exception is consumer financing, which is growing very vigorously.

Financial Indicators



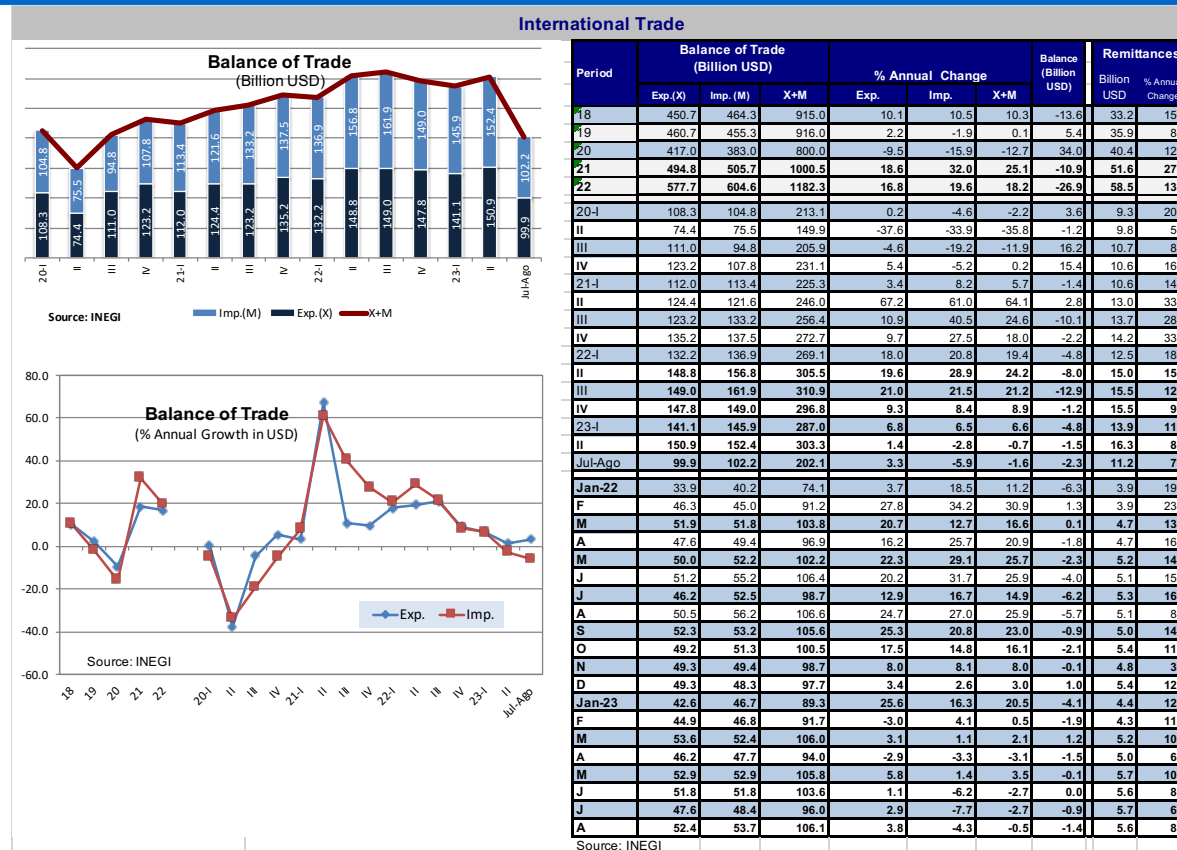
Period	Financing to Private Sector (% Annual Real Growth)						Interest Rates (% Annual)		Stock Market		
	TOTAL Billion MX\$	Real Growth	By Source		For Destination		CETES- 28d	TIIE-28d	IPC ('000)	% Growth	
			External	Internal	Consumption	Housing					Business
15-I	6,537	9.5	18.8	6.6	6.6	5.7	12.7	3.1	3.3	43.7	-1.1
IV	7,375	12.9	14.2	12.5	10.9	6.9	16.1	3.1	3.6	43.0	-2.3
16-I	7,681	14.4	17.7	13.2	18.7	5.6	17.6	3.8	4.1	45.9	6.8
IV	8,608	13.0	15.6	12.0	17.7	6.2	14.9	5.7	6.1	45.6	0.9
17-I	8,489	5.3	0.4	7.1	9.0	3.6	5.2	6.4	6.8	48.5	6.4
IV	9,331	1.7	-4.7	4.2	4.0	2.0	1.1	7.2	7.6	49.4	1.6
18-I	9,270	3.7	-2.4	5.8	4.8	3.6	3.5	7.5	7.9	46.1	-6.5
IV	9,828	0.5	-9.0	3.9	1.6	3.0	-0.7	8.2	8.6	41.6	-15.9
19-I	9,978	3.4	-1.8	5.1	0.7	4.0	3.8	7.9	8.9	43.3	3.9
IV	10,067	-0.5	-2.5	0.1	-4.0	3.6	-1.4	7.3	7.6	43.5	1.2
20-I	11,150	8.1	24.8	3.0	-5.1	2.1	13.5	6.6	6.7	34.6	-20.5
IV	10,309	-1.1	3.7	-2.6	-10.1	4.1	-1.3	4.2	4.5	43.2	15.5
21-I	10,371	-10.6	-18.0	-7.9	-11.5	3.3	-15.6	4.1	4.3	47.2	9.2
21-II	10,418	-10.4	-15.9	-8.4	-8.6	1.1	-15.1	4.0	4.5	50.3	6.4
21-III	10,616	-6.6	-10.6	-5.3	-4.7	1.8	-10.5	4.7	4.7	51.4	2.2
21-IV	10,744	-2.6	-2.0	-2.8	-4.0	0.4	-3.7	5.5	5.7	53.3	3.7
22-I	10,836	-2.6	-6.0	-1.5	0.5	0.6	-4.6	6.5	6.7	56.5	6.1
22-II	11,079	-1.3	-6.6	0.4	3.0	0.4	-3.0	7.6	8.0	47.5	-15.9
22-III	11,292	-2.0	-11.0	1.0	4.6	-0.9	-3.8	9.3	9.0	44.6	-6.1
22-IV	11,417	-1.6	-15.1	2.8	8.2	-0.3	-4.2	10.1	10.8	48.5	8.6
23-I	11,331	-2.7	-20.2	2.8	9.2	-0.2	-6.3	11.3	11.4	53.9	11.2
23-II	11,370	-2.9	-23.6	3.4	11.5	1.1	-7.8	11.0	11.5	53.5	-0.7
J								11.0	11.5	53.5	1.5
J								11.1	11.5	54.8	2.4
A								11.1	11.5	53.0	-3.3

Source: Banco de México

- The recent economic crisis translated first into a slowdown in financing to the private sector (2020) and then into a decline from 2021 to 2023.
- The decline in the second quarter of 2023 (-2.9%) is observed above all in financing for companies (-7.8%), which contrasts with the growth of financing to housing (1.1%) and especially to consumption, which reports vigorous growth (11.5%).
- To boost financing, interest rates were kept low, but they began to rise in the second part of 2021, and in 2023 they appear to stagnate around 11%. The Stock Market, for its part, has shown great ups and downs in recent years: in 2022 it lost 9% and in January-August 2023 it gained 9.3%.

International Trade

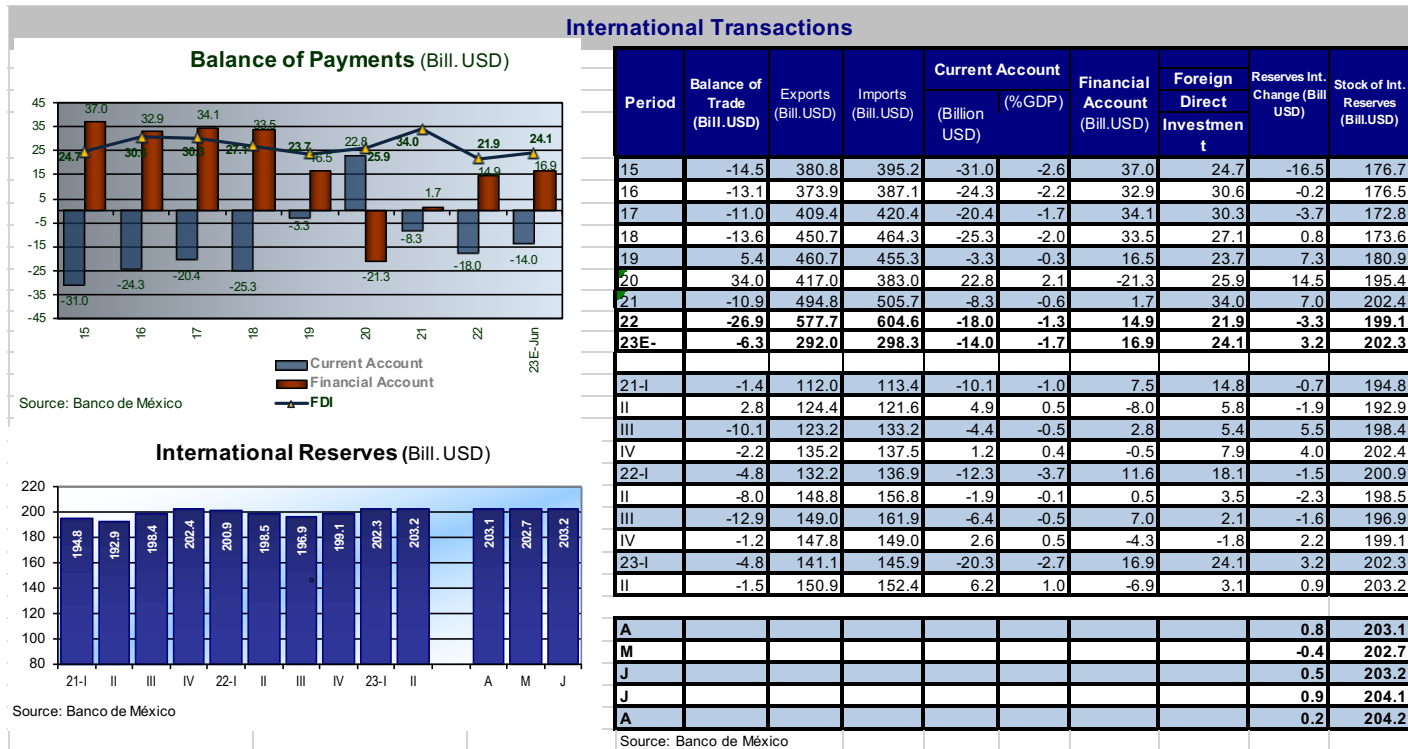
In January-August 2023, international trade in goods tends to stagnate, in response to the lower economic dynamism in the US.



- After the collapse of 2020, international trade in goods recovered quickly in 2021 and remained dynamic in 2022, accumulating 1,182.8 USD Bn in the year. But in 2023 a rapid deceleration is observed.
- In 2022, the trade balance registered a deficit of 26.4 USD Bn, but in January-August 2023 the deficit stood at 8.6 USD Bn.
- For their part, remittances remain dynamic and totaled 41.4 USD Bn in January-August 2023.

External Sector

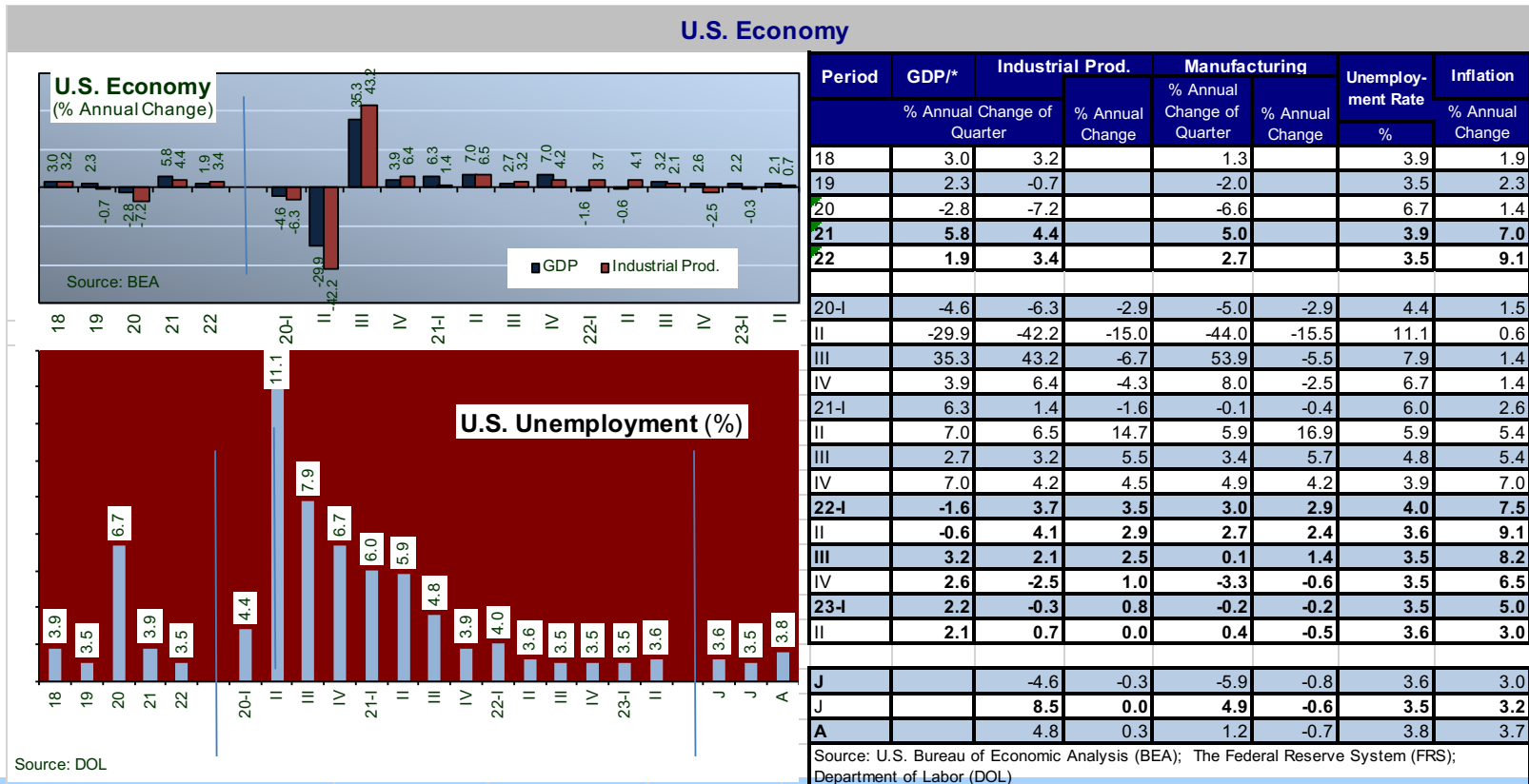
In the first half of 2023, the balance of payments reflects a deficit in the current account (-14 USD Bn) and a surplus in the financial account (16.9 USD Bn), supported by Foreign Direct Investment (24.1 USD Bn).



- In the first half of 2023, the highlight is that Foreign Direct Investment (24.1 billion MD) seems to be taking on a new dynamic, due to the effect of nearshoring.
- As a consequence of the good performance of the financial account, international reserves remain high: they closed 2022 at 199.1 USD Bn and in August 2023 they are already at 204.2 USD Bn.
- Nearshoring has sparked interest inside and outside the country. This has strengthened the inflow of capital into the country. Direct investment in particular is going through a good moment.

International economy

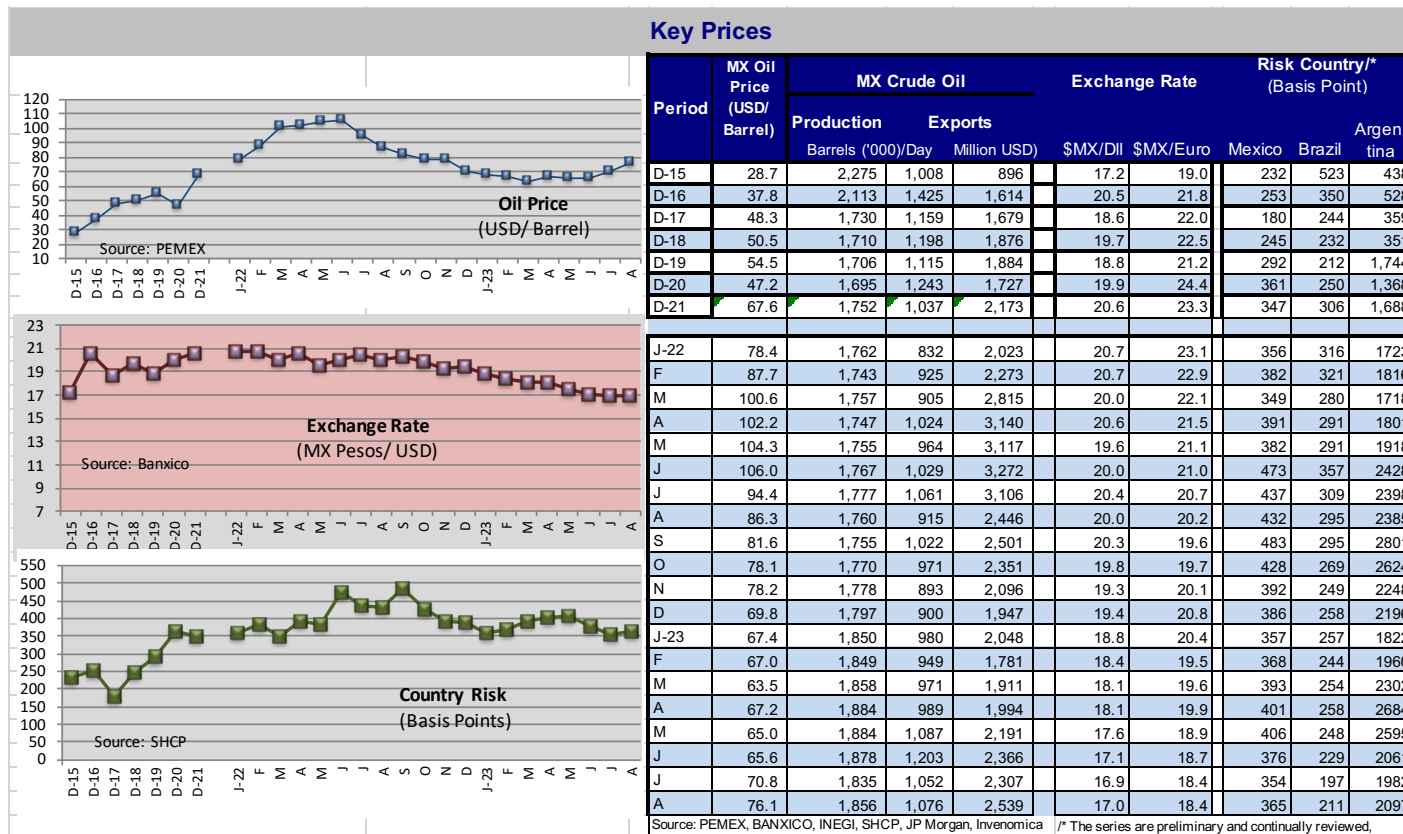
The US GDP reported growth of 2.1% in the second quarter of 2023 (vs. 2.2% in the previous quarter). For its part, the industrial sector remains weakened (0.7%), while unemployment remains low (3.8% in August).



- Expectations of a slowdown in the US have not come true in 2023. The one that shows signs of slowdown is the industrial sector, which appears very weakened. However, unemployment remains low and that indicates that the US economy remains vigorous.
- The good news is that inflation is contracting: it closed 2022 at 6.5% and in August it fell to 3.7%. Everything indicates that the fight against inflation has been successful.
- The expectation for 2023 is to achieve moderate economic growth (around 2%) and quickly reduce underlying inflation, via a very restrictive monetary policy and high interest rates.

Key Prices

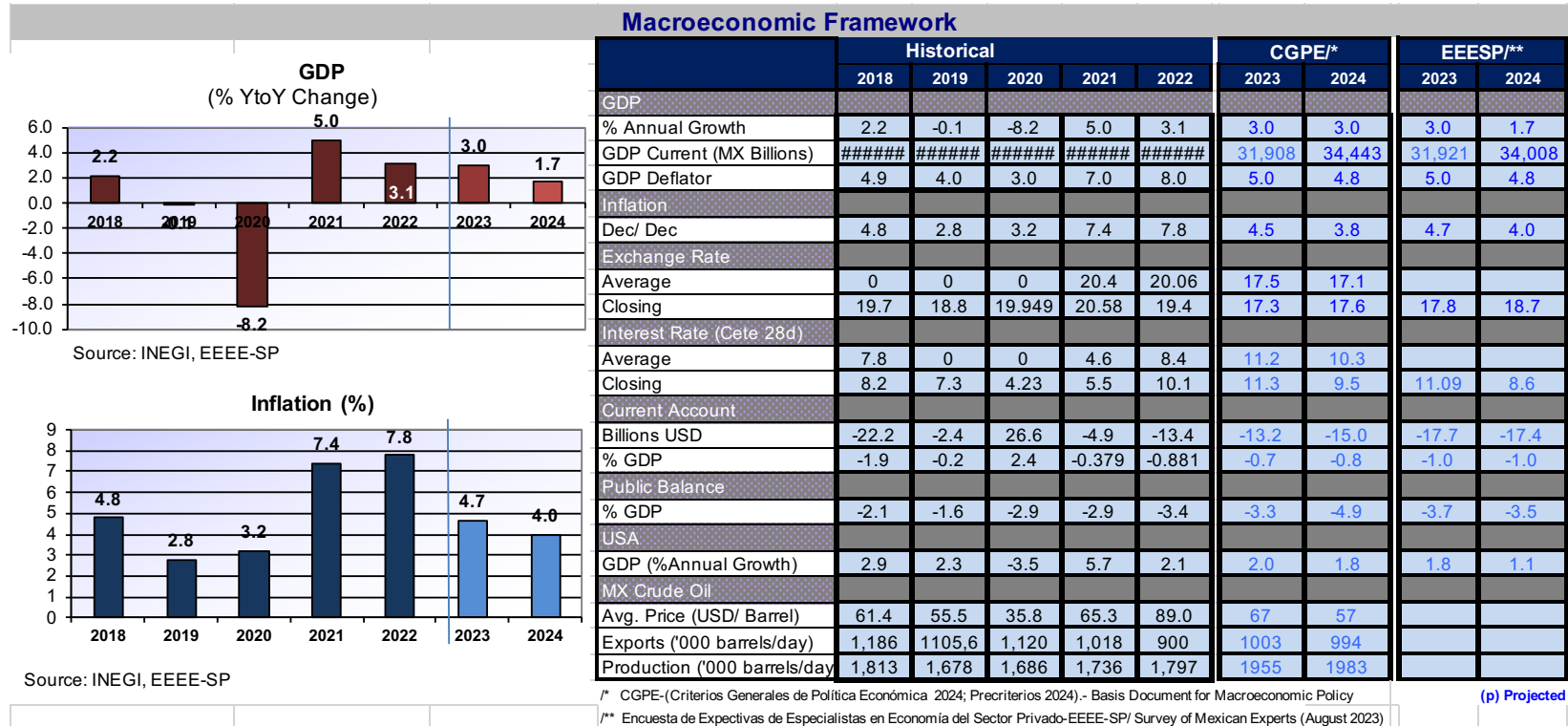
In July-August 2023, the price of crude oil already exceeds 70 DPB and continues to rise; while the exchange rate consolidates its downward trend (17 PPD) and the country risk consolidates at less than 400 basis points.



- After declining throughout 2022 and the first part of 2023, the price of crude oil rebounded again and was already above 70 DPB in August.
- Despite the uncertainty and market ups and downs, the exchange rate has remained very strong. In August it closed at 17 PPD.
- For its part, the country risk in the post-pandemic stage has shown ups and downs around 400 basis points: it closed 2022 at 386 and in August it fell to 365 basis points.

Macroeconomic Framework of Mexico

According to Mexican economic experts, growth expectations for 2023-2024 continue to improve (they have already reached 3% for 2023) and inflation expectations are downward for the biennium: 4.7% and 4%.

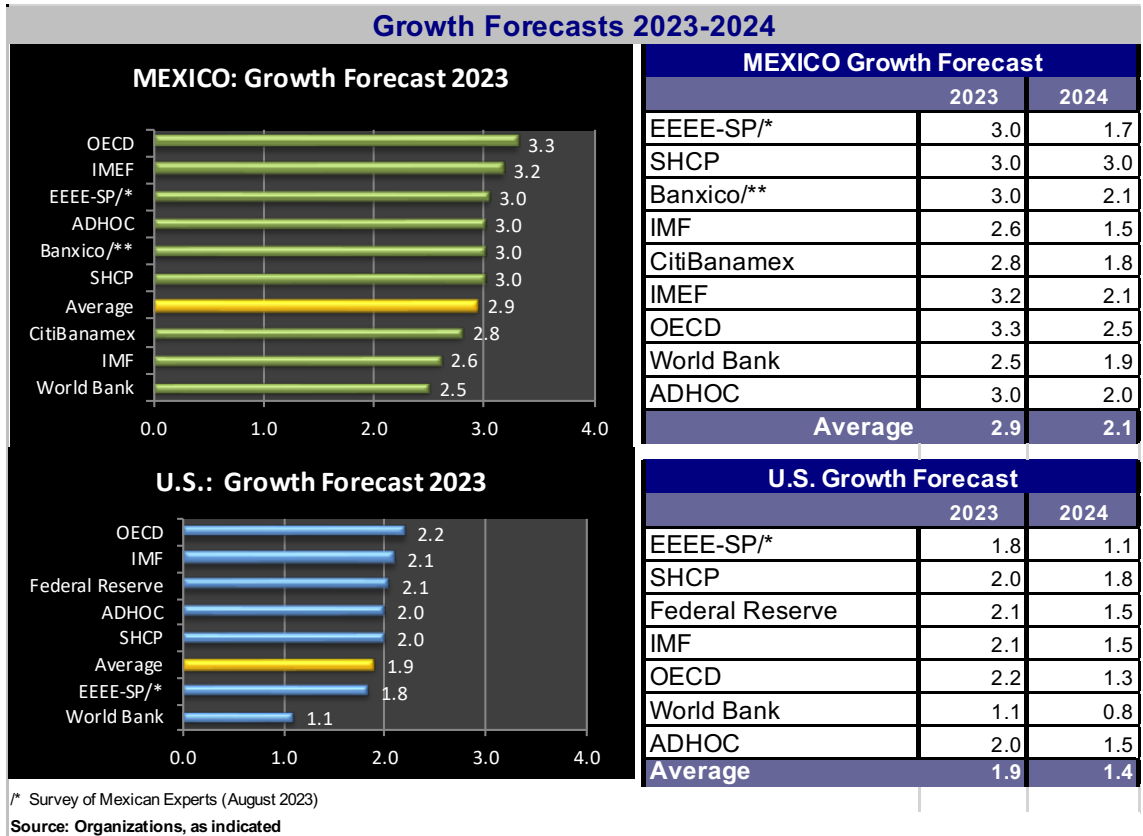


- For 2023-2024, experts predict moderate economic growth: 3% and 1.7% for the two years.
- A decreasing inflation rate is estimated, which tends to converge to the institutional goal: 4.7% in 2023 and 4% in 2024.
- According to its forecasts, the fundamental balances will remain under control, although the fiscal deficit tends to overflow (-3.7 and -3.5% of GDP for the two years), while the current account balance does not exceed 1% of GDP for both years.
- According to their forecasts, two years of moderate growth is expected for the US economy: in 2023 (1.8%) and in 2024 (1.1%).

Growth Forecasts 2023-2024



According to specialized agencies, the expected growth for 2023 is 2.9% and 1.9% for Mexico and the US respectively. For 2024, growth of 2.1% and 1.4% is expected for both countries.



- For Mexico, the forecasts of nine specialized organizations fluctuate between 2.5% and 3.3% in 2023, with an average of 2.9%. For 2024, the average forecast is 2.1%.
- For the USA, the forecasts of seven specialized organizations fluctuate between 1.1% and 2.2% for 2023, with an average of 1.9%. For 2024, the average forecast is 1.4%.
- As can be seen, both economies show moderate dynamism, but the moderation of growth is greater in the US than in Mexico.

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